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No. 14-1513

IN THE

Supreme Court of the United States

HALO ELECTRONICS, INC.,
Petitioner,

v.

PULSE ELECTRONICS, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

MOTION FOR LEAVE TO FILE AND BRIEF OF *AMICI CURIAE* NOKIA TECHNOLOGIES OY AND NOKIA USA INC. IN SUPPORT OF PETITIONER

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July 24, 2015

Nokia Technologies Oy and Nokia USA Inc. (collectively, "Nokia") hereby move, pursuant to S. Ct. R. 37.2, for leave to file an *amici curiae* brief in support of the petition for a writ of certiorari to the United States Court of Appeals for the Federal Circuit. Nokia is filing this motion because Respondent has refused to grant consent to Nokia to file its *amici curiae* brief. A copy of the proposed brief is attached.

As more fully explained on page 1 of the attached brief under the heading "Interest of the *Amici Curiae*," Nokia is a global leader in the telecommunications equipment and services industry. Nokia regularly avails itself of the patent system, both as a patent holder, patent licensor, and as plaintiff and defendant in patent cases, including cases in which enhanced damages under § 284 are sought. Accordingly, Nokia has a particular interest in ensuring that the standards governing enhanced damages under § 284 properly balance the interests of patent holders and those of users of patented technology.

Nokia's brief will assist the Court in determining whether to grant certiorari because Nokia is well-positioned to point out the importance of this case to innovative companies and frequent participants in the patent system. Nokia is not motivated by a desire to influence the outcome of any pending case, nor is Nokia interested in the merits of this particular case. Rather, because Nokia is a frequent and repeat participant in all aspects of the patent system, Nokia can inform the Court of the broad implications of the Federal Circuit's overly

rigid standard for awarding enhanced damages under § 284.

Accordingly, Nokia respectfully requests that the Court grant leave to file the attached brief as *amici curiae*.

Respectfully submitted,

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INTEREST OF THE *AMICI CURIAE*[1]

Amici curiae are Nokia Technologies Oy and Nokia USA Inc. (collectively, "Nokia"). Nokia is a global leader and innovator in the telecommunications equipment and services industry. The Nokia group of companies have cumulatively invested over $70 billion in research and development relating to mobile communications. As a result of this substantial commitment, Nokia currently owns more than 10,000 patent families, including a large number of standard-essential patents. Nokia continues to invest heavily in research and development and to license and expand its industry-leading patent portfolio. For example, Nokia continues to develop and license innovations that are powering the next revolution in computing and mobility: the "programmable world" where intelligent connections bring millions of everyday objects online. This work includes a team of experts in areas including digital healthcare, digital

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[1] Pursuant to Supreme Court Rule 37.6, counsel for *amici curiae* state that no counsel for a party authored this brief in whole or in part, or made a monetary contribution intended to fund the preparation or submission of this brief, and no other person other than *amici curiae*, its members, or its counsel made such a contribution. Pursuant to Supreme Court Rule 37.2, counsel for *amici curiae* represent that all counsel of record received notice of *amici curiae*'s intent to file this *amicus curiae* brief. Pursuant to Supreme Court Rule 37.3, counsel for *amici curiae* represent that Petitioner gave written consent to counsel for *amici curiae* to file this *amici curiae* brief. Respondent has refused to provide consent.

multimedia, imaging and sensing, wireless connectivity and power management, advanced materials, and others.

Nokia and its parent company have been involved in numerous patent cases in U.S. district courts, both as a plaintiff and a defendant, including cases where enhanced damages under 35 U.S.C. § 284 were sought by or against Nokia. Nokia is a significant patent owner that might seek such enhanced damages for certain kinds of patent infringement in U.S. district courts.

Nokia's interest in this case is to advocate for the appropriate statement and application of legal standards governing enhanced damages under 35 U.S.C. § 284, and to ensure that those standards balance the interests of patent holders and those of users of patented technology. Companies like Nokia must be assured that their past, present, and future substantial research and development efforts are protectable under the U.S. patent regime and that, upon an appropriate request and showing, they are able to receive proper remediation and adequate compensation, including recovery of enhanced damages, for unauthorized uses of their patented technologies. Although Nokia does not take any ultimate position on the facts of this specific case, Nokia supports Petitioner's position that this Court should grant a writ of certiorari in this case in order to provide guidance as to the appropriate standard governing an award of enhanced damages under 35 U.S.C. § 284.

SUMMARY OF ARGUMENT

Section 284 of the Patent Act grants to trial courts the discretion to award enhanced damages in patent cases. 35 U.S.C. § 284. Despite the plain language of this statute, the Federal Circuit has imposed a willfulness requirement onto § 284 and has set forth an overly rigid two-part test and an unreasonably high burden of proof for determining when a defendant has committed willful infringement. These requirements conflict with recent guidance from the Supreme Court and make it unreasonably difficult for patent owners to obtain enhanced damages in many patent cases, thus encouraging continued infringement and discouraging further investment in innovation.

This Court recently recognized, in the context of attorney fees awards under section 285 of the Patent Act, that such rigid tests are not warranted by statute and improperly limit the exercise of the district court's discretion. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755-56. This Court's reasoning in *Octane Fitness* is equally applicable in the context of awarding enhanced damages, and a similar approach should be applied. Requiring the same approach to enhanced damages under § 284 as that applied to fee shifting under § 285 also properly balances the interests of patent holders against those of accused infringers to ensure that patent holders are properly compensated and that improper conduct, such as copying, holding out in licensing discussions, bad faith, and/or other

dilatory negotiation tactics, or other unreasonable conduct by implementers of patented technologies is both deterred and remediated when the facts of a given case as a whole warrant an award of enhanced damages.

The Federal Circuit's overly rigid standard for awarding enhanced damages is unfair to patent owners in many patent cases, including, for example, those that may involve standard-essential patents. Because patent owners often agree to license such patents on fair, reasonable, and non-discriminatory ("FRAND") terms, which is viewed by some as a limitation on available remedies, infringing implementers more and more frequently are engaging in dilatory and other unfair negotiation tactics to avoid paying appropriate compensation under a license, as these infringers believe under current rules that they likely will never have to pay any more than a fair and reasonable royalty for their infringing use. As a result, such infringing implementers frequently choose to ignore the patent rights of the owners of standard-essential patents and to continue to infringe without significant risk of remediation or retribution for their unreasonable conduct. District courts should have the discretion to award enhanced damages under appropriate circumstances to deter such conduct.

The need for review of the currently-applied enhanced damages standard is made even more apparent by the fact that this standard is also at issue in a co-pending petition for a writ of certiorari

in *Stryker Corporation v. Zimmer, Inc.*, No. 14-1520, in which Nokia has contemporaneously filed an amicus brief setting forth the same arguments presented below. This issue is of utmost importance to the patent community. This Court should therefore grant Petitioner's petition for a writ of certiorari in order to reevaluate the current judicially-created standard for an award of enhanced damages under § 284. The current standard lacks support in the statute, conflicts with the guidance of this Court, and is out of line with important policy considerations.

ARGUMENT

I. AN AWARD OF ENHANCED DAMAGES UNDER § 284 SHOULD NOT REQUIRE A FINDING OF WILLFULNESS

A. The Statutory Language of § 284 Provides No Support for a Willfulness Requirement

Section 284 of the Patent Act states that "the court may increase the damages up to three times the amount found or assessed." 35 U.S.C. § 284. This section does not limit the circumstances in which such enhanced damages are appropriate, instead leaving the decision to the discretion of the trial court. *See id.* The statute does not require any subjective inquiry into the mind of the accused infringer, nor does it identify any specific criteria

that must be met before the district court may exercise its discretion to award enhanced damages.

Despite the broad discretion afforded by § 284, the Federal Circuit has held that increased damages are only available when a defendant is guilty of willful infringement. *See In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007). The Federal Circuit, moreover, has further restricted the availability of enhanced damages with an overly rigid two-part test for determining whether this willfulness standard is met. Under the first prong of this concocted test, a patent owner "must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* at 1371. If this threshold objective standard is satisfied, the patent owner must then prove that the objectively-defined risk "was either known or so obvious that it should have been known to the accused infringer." *Id.* This added requirement of willfulness is an error that must be corrected.

When grafting a willfulness requirement onto § 284, the Federal Circuit sought guidance from the enhanced damages provision in copyright law. *See id.* at 1370. Although copyright law may provide guidance in limited circumstances, the Federal Circuit's reliance on copyright law in this context was improper. Unlike § 284 of the Patent Act, in the Copyright Act Congress explicitly set forth a willfulness requirement for a finding of enhanced damages. 17 U.S.C. § 504(c)(2) ("In a case where the

copyright owner sustains the burden of proving, and the court finds, that infringement was committed willfully, the court in its discretion may increase the award of statutory damages....."). The glaring absence of such a requirement in the Patent Act suggests that Congress did *not* intend for there to be such a requirement. *See Seagate*, 497 F.3d at 1381-82 (Gajarsa, J., concurring). Clear statements from Congress should exist before placing limits on recovery for patent infringement. *See Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 653 (1983) ("When Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly."). Conversely, statutes lacking clear statements generally have been interpreted as giving courts broad equitable discretion to award enhanced damages. *See, e.g., TE-TA-MA Truth Foundation-Family of URI, Inc. v. World Church of the Creator*, 392 F.3d 248, 261 (7th Cir. 2004) ("The broad discretion accorded a district court under § 1117(a)...is inconsistent with an interpretation that restricts a prevailing plaintiff to recovery of fees only in cases of willful infringement."). Given the broad language of § 284 and the omission of a willfulness requirement, the decision regarding whether to award enhanced damages should be left to the discretion of the court upon consideration of the totality of the circumstances.

B. The Federal Circuit's Grafting of a Willfulness Requirement onto § 284 is Contrary to the Legislative History of the Statute and Ignores the Remedial Purpose of Enhanced Damages

When *Seagate* was first decided, two Federal Circuit judges advocated for the removal of the willfulness requirement from § 284. *Seagate*, 497 F.3d at 1376-84 (Gajarsa, J., concurring). As Judges Gajarsa and Newman set forth in their concurring opinion, the judicially manufactured willfulness requirement finds no support in the legislative history, ignores the compensatory function of enhanced damages, and improperly limits judicial discretion.

The first patent statute to include a provision for enhanced damages included a mandatory requirement for an infringer to pay enhanced damages. Patent Act of 1793, ch. 11, § 5, 1 Stat. 318, 322 (repealed 1836). The Patent Act of 1836 removed this mandatory requirement and instead granted courts the discretion to award enhanced damages "according to the circumstances of the case." Patent Act of 1836, ch. 357, § 14, 5 Stat. 117, 123. As emphasized by Judge Gajarsa, "[n]othing in the phrase 'according to the circumstances of the case' implies that the district court's discretion to award enhanced damages is contingent upon a finding of willfulness." *Seagate*, 497 F.3d at 1377 (Gajarsa, J., concurring). The enhanced damages provision of the current § 284 is substantively identical to the

provision in the 1836 Act. *See* 35 U.S.C. § 284. It is therefore clear that the purpose of this statute was to provide discretion to the courts to enhance patent damages.

Requiring willfulness for an award of enhanced damages also ignores the compensatory aspect of such damages. As originally drafted, discretionary enhanced damages were designed, at least in part, to ensure that the patent owner was properly compensated for infringement. *See* Sen. John Ruggles, S. Report Accompanying Senate Bill No. 239, at 6 (Apr. 28, 1836) (recognizing that one problem to be addressed by the 1836 Patent Act was the fact that pre-1836 patent law "offer[ed] an inadequate remedy for the [infringement] injury"). And even the Federal Circuit has recognized that enhanced damages may be necessary to properly compensate a patent owner. *See, e.g., King Instruments Corp. v. Perego*, 65 F.3d 941, 951 n. 6 (Fed. Cir. 1995) ("Such discretionary increases may be appropriate where plaintiffs cannot prove direct and foreseeable damages in the form of lost profits."); *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1126 (Fed. Cir. 1987) ("Whether or not willfulness is found, the court has authority to consider the degree of culpability of the tortfeasor. The measure of damages...provides an opportunity for the trial court to balance equitable concerns as it determines whether and how to recompense the successful litigant."); *Stickle v. Heublein*, 716 F.2d 1550, 1563 (Fed. Cir. 1983) ("[T]he trial court may award an amount of damages greater than a reasonable

royalty so that the award is adequate to compensate for the infringement."). As explained by Judge Gajarsa, situations in which an award of enhanced damages may be necessary to adequately compensate a patent owner, irrespective of a willfulness finding, could include, for example, those where a defendant's sales data is lost prior to discovery or where a court determines that enhanced damages are more appropriate than injunctive relief. *Seagate*, 497 F.3d at 1378 (Gajarsa, J., concurring).

Another example where an award of enhanced damages may be appropriate without a finding of willfulness is in cases involving standard-essential patents. When a patent is declared essential to an industry standard, the patent owner is often obligated to license the patent on FRAND terms. When a patent owner has expressed a willingness to license its patent on FRAND terms, an infringing implementer may believe that the patent owner has limited its available remedies for unauthorized use and, as a result, may engage in dilatory or hold-out tactics in order to delay, if not outright avoid, paying for a license. Infringing implementers may be incentivized to engage in dilatory tactics because they believe that any royalties awarded in a patent case would be effectively capped at a FRAND rate. The FRAND commitment, therefore, may work to provide an incentive for the infringing implementer to continue infringement without payment of compensation for as long as possible in order to gain all of the benefits of postponed cash outlays or other value transfers. District courts should have the

discretion to award enhanced damages under § 284 in these kinds of situations in order to fully compensate patent owners and deter such harmful hold-out tactics.

Moreover, the historical practice of awarding enhanced damages upon a finding of willfulness does not justify a general rule requiring willfulness as a prerequisite for such awards. *Cf. eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395 (2006) (observing that the historical practice of granting injunctions in the vast majority of patent cases "does not *entitle* a patentee to a permanent injunction or justify a *general rule* that such injunctions should issue."). Because willful infringement was the most common reason for a court to award enhanced damages, the case law quickly began to focus on that issue to the exclusion of other circumstances that may have warranted exercise of the district court's discretion.

The Federal Circuit's grafting of a willfulness requirement onto § 284 is contrary to the statute's legislative history, ignores the compensatory aspect of enhanced damages, and improperly eliminates the discretion granted to the district court. This Court should therefore grant certiorari in this case to review and remove the willfulness requirement.

II. REVIEW IS NEEDED TO RECONCILE THE LEGAL STANDARD FOR ENHANCED DAMAGES UNDER SECTION 284 WITH THIS COURT'S PRECEDENT REGARDING SECTION 285

This Court recently rejected the Federal Circuit's overly rigid test for awarding attorney fees under § 285 of the Patent Act, as well as the heightened standard of proof for such fee-shifting determinations. As discussed below, the reasoning applied by the Court under § 285 applies with equal force to § 284.

A. This Court's Rejection of the Federal Circuit's Unduly Rigid Test for Fee-Shifting Under § 285 Favors Rejection of the Federal Circuit's Equally Rigid Test Under § 284

Section 285 states that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. The Federal Circuit previously required a showing that a case either involved "material inappropriate conduct" or was both "objectively baseless" and "brought in subjective bad faith" in order to award attorneys' fees. *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1382 (Fed. Cir. 2005). This Court struck down that test as "unduly rigid," finding that the test "impermissibly encumber[ed] the statutory grant of discretion to district courts." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*,

134 S. Ct. 1749, 1756 (2014). The Court also noted that the Federal Circuit's requirement that "a district court must determine *both* that the litigation is objectively baseless *and* that the plaintiff brought it in subjective bad faith" was too restrictive. *Id.* at 1757. The Court held instead that either objectively baseless litigation or a plaintiff's subjective bad faith may independently warrant a fee award. *Id.*

The Court further rejected the Federal Circuit's reliance on a prior Supreme Court decision to support its objective/subjective test for fee-shifting. *Id.* The Federal Circuit had imported the standard set forth in *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993), into § 285. *Id.* The Court held that this importation was improper, noting that "the *PRE* standard finds no roots in the text of § 285." *Id.*

The Court held that the proper test for determining whether fee-shifting is appropriate is the consideration of the totality of the circumstances on a case-by-case basis. *Id.* at 1756. Thus, even though § 285 is limited to "exceptional cases," the Court left the determination of whether fee-shifting is appropriate to the discretion of the district court by allowing the district court to consider the totality of the circumstances.

This Court's reasoning in *Octane Fitness* applies with equal, or even greater, force to awards of increased damages under § 284, for multiple reasons. First, Section 284 provides even greater discretion to

the district court than does Section 285: a district court "may increase the damages up to three times the amount found or assessed." 35 U.S.C. § 284. Like the test for § 285 rejected by this Court, the current Federal Circuit test for § 284 "superimposes an inflexible framework onto statutory text that is inherently flexible." *Octane Fitness*, 134 S. Ct. at 1756.

Second, the objective/subjective test used by the Federal Circuit to determine whether to award enhanced damages is nearly identical to the § 285 test rejected by this Court in *Octane Fitness*, despite that section having a more restrictive "exceptional case" requirement. *See iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011) ("The objective baselessness standard for enhanced damages and attorneys' fees...under *Brooks Furniture* is identical to the objective recklessness standard for enhanced damages and attorneys' fees against an accused infringer for § 284 willful infringement actions."). This Court should therefore overturn the § 284 test for the same reasons it rejected the § 285 test.

Third, the Federal Circuit's current test for enhanced damages, like its old test for fee-shifting, was predicated on this Court's decision in *PRE*. *See Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 769 F.3d 1371, 1384 (Fed. Cir. 2014) (O'Malley, J., concurring). In *Octane Fitness*, this Court told the Federal Circuit that its interpretation of *PRE* was wrong. *Octane Fitness*, 134 S. Ct. at 1757. "Just as 'the *PRE* standard finds no roots in the text of § 285,' there is

nothing in the text of § 284 that justifies the use of the *PRE* narrow standard." *Halo Elecs.*, 769 F.3d at 1384 (O'Malley, J., concurring) (quoting *Octane Fitness*, 134 S. Ct. at 1757). This Court should thus reject the Federal Circuit's reliance on *PRE* to construct an overly rigid test for awarding enhanced damages under § 284.

Despite the similarities between § 284 and § 285 and the tests constructed by the Federal Circuit to apply those statutes, the Federal Circuit has to date persisted in applying an overly rigid standard to § 284, even after this Court rejected the basis for that standard in *Octane Fitness*. Review is required to reconcile these tests and preserve flexibility and discretion in awarding damages under § 284 as the Court has done for § 285.

B. This Court's Precedent Confirms that a Heightened Standard of Proof Is Not Required to Award Enhanced Damages

In *Octane Fitness*, this Court also rejected the Federal Circuit's requirement that patent owners establish their entitlement to fees under § 285 by clear and convincing evidence, noting that "patent-infringement litigation has always been governed by a preponderance of the evidence standard." *Octane Fitness*, 134 S. Ct. at 1758. The Court noted that "nothing in § 285 demands such a high standard of proof." *Id.* Instead, "Section 285 demands a simple discretionary inquiry." *Id.*

Like § 285, § 284 contains no language that justifies a higher standard of proof. Section 284 allows enhanced damages at the discretion of the district court, and the award of such damages should also be subject to the lesser preponderance of the evidence standard governing infringement damages. This Court should grant certiorari to remove the heightened burden the Federal Circuit has imposed on patent owners to establish enhanced damages under § 284.

III. THE FEDERAL CIRCUIT'S TEST IS OVERLY RIGID EVEN WITH RESPECT TO WILLFULNESS

Although willfulness should not be a strict requirement, evidence of willful infringement may support a finding of enhanced damages. However, the Federal Circuit's two-part willfulness test should be rejected even when willfulness is at issue. It improperly permits the focus of the inquiry to be on an infringer's post-suit activities and fails to account for pre-suit conduct that may warrant an award of enhanced damages. Section 284 is not so limited. Review is necessary to remove this test and replace it with a standard that allows the district court to consider the totality of the circumstances, including an infringer's pre-suit activities.

A. The Federal Circuit's Willfulness Test Encourages Free-Riding by Infringers and Discourages Innovation

When applying the Federal Circuit's current strict two-part willfulness test, courts have focused on the merits of a defendant's post-litigation defenses, rather than on a defendant's pre-suit actions. *See, e.g., Stryker Corp. v. Zimmer, Inc.*, 782 F.3d 649, 661-62 (Fed. Cir. 2014) (holding that Zimmer's post-litigation defenses precluded a finding of willfulness, despite the fact that the evidence showed that "Zimmer all but instructed its design team to copy Stryker's patents"). District courts have increasingly held that a close call on infringement or the existence of a substantial invalidity defense precludes a finding of willfulness. *See, e.g., Resqnet.com, Inc. v. Lansa, Inc.*, 533 F. Supp. 2d 397, 420 (S.D.N.Y. 2008); *TGIP, Inc. v. AT&T Corp.*, 527 F. Supp. 2d 561, 579 (E.D. Tex. 2007).

Under the Federal Circuit's willfulness standard, no matter how unreasonable, reckless, or intentional an infringer's actions are pre-suit, willful infringers can attempt to avoid the consequences of their actions by simply putting forth a non-frivolous post-suit defense. This does not make sense from a policy perspective. Courts should also focus on objective pre-suit factors, such as the facts known to the accused infringer at the time the accused infringer learned of the patent and proceeded with actions relevant to infringement. Only by looking at all of the relevant evidence can the trier of fact

decide whether the accused infringer committed willful infringement. As the Federal Circuit previously recognized, the mere fact that an infringer is able to come up with some plausible defenses at trial should not negate the infringer's earlier unreasonable, bad faith, or reckless actions. *See Datascape Corp. v. SMEC, Inc.*, 879 F.2d 820, 829 n. 8 (Fed. Cir. 1989) ("[Defendants] will not be permitted to be saved from their flagrant disregard for the patent laws by the fortuity that when the patent in issue was closely scrutinized in this lawsuit, a close question of obviousness was presented.") (internal citation omitted).

Awarding enhanced damages for willful infringement punishes culpable behavior and deters potential infringers from engaging in such behavior. *See Rite-Hite*, 819 F.2d at 1126 ("The role of a finding of 'willfulness' in the law of infringement is partly as...an economic deterrent to the tort of infringement – and partly as a basis for making economically whole one who has been wronged."). The Federal Circuit's current rigid willfulness standard fails to accomplish these important objectives. Under the current standard, an infringer who intentionally chose to infringe a patent, believing fully that the act was infringement, and that was later judged to be infringing, could still successfully avoid enhanced damages by concocting, post-suit, a non-frivolous (but ultimately incorrect) defense. This result encourages infringers to disregard known patent rights of innovators because there is little chance that doing so will result in greater penalty. With a lower threat

of being punished, efficient infringement becomes a rational business model, and companies may choose to take the lower risk of willfully infringing a patent to obtain the benefit of free-riding on others' innovation. The willfulness inquiry as a factor in an enhanced damages analysis serves to deter unreasonable behavior, such as knowing infringement, and the determination of whether enhanced damages are appropriate should enable that goal to be fulfilled. The Federal Circuit's overly rigid test does not do so.

The current willfulness standard is equally problematic with regard to standard-essential patents, such as patents essential to cellular telecommunications standards. After a patent is declared essential to an industry standard, if a company decides to implement the standard and is on notice of another's essential patent, that implementer should take steps to either timely obtain a license and pay appropriate royalties or take all necessary steps to reasonably determine that a license is not needed. However, as discussed above, the implementer has little incentive to timely enter into a license and begin making appropriate payments if it believes that it will at most have to pay FRAND terms for such a license at the end of the day, even if it engages in unreasonable conduct in negotiations, such as hold-out tactics to avoid paying appropriate compensation. If the implementer chooses to ignore the patent rights of others and refuses to timely enter into a license, it is free-riding on the intellectual property rights of others. The

availability of enhanced damages may provide a needed deterrent against such hold-out tactics and free-riding because the infringing implementer could face much higher damages awards in appropriate cases where its conduct so warrants. The Federal Circuit's rigid test, however, removes much of the teeth from this deterrent, and, as a result, users of essential patented technology are incentivized to continue holding out and free-riding as long as possible because, under the current regime, the risk of enhanced damages is mitigated by the possibility that post-suit rationalizations will avoid enhanced damages. Without a meaningful deterrent, there is little risk in this approach and much to gain from continued use of technology without paying for it.

The pre-*Seagate* process for enhancing damages was finely balanced between patent owners and infringers. *See* Justin P. Huddleson, *Objectively Reckless: A Semi-Empirical Evaluation of In re Seagate*, 15 B.U. J. SCI. & TECH. L. 102, 135 (2009). The Federal Circuit's more recent rigid test places most of the burden on the patent owner, thereby increasing the chance that implementers, including willful infringers, will more easily evade enhanced damages. If patent owners are unlikely to get enhanced damages in cases, including those involving willful infringement, some rational patent owners may choose not to pursue every violation. Additionally, the increased costs of proving willfulness, combined with the potential for insufficient compensation, greatly decreases

incentives for patenting, thus discouraging continued investment in innovation.

The ability to deter willful infringement is part of a patent's value. The incentive for an inventor to patent and disclose an invention is only as strong as the property rights of a patent. "The strength of this property right is crucial to foster innovation that would not occur except for the prospect of a patent because companies can expect increased profits from investments in research and development." Huddleson, *supra*. The current willfulness standard set forth in *Seagate* weakens the property rights of a patent by effectively encouraging willful infringement. This Court should thus intervene and set forth a more flexible, discretionary willfulness standard that is consistent with the discretion afforded by § 284.

B. The High Standard of Proof Required to Satisfy the Willfulness Standard Creates an Unreasonable Burden for a Patent Owner to Obtain Enhanced Damages

Another concern with the Federal Circuit's overly rigid willfulness standard for enhanced damages is that it places the burden on the patent owner to establish both prongs of the current test by clear and convincing evidence. *See Seagate*, 497 F.3d at 1371. This places an unreasonably high burden on the patent owner to obtain an enhanced damages award. The statute contains no such requirement,

and the heightened standard imposed by the Federal Circuit undermines the purpose behind it.

When discussing Congress's silence regarding a standard of proof in a statute, this Court has noted that "[t]his silence is inconsistent with the view that Congress intended to require a special, heightened standard of proof." *Grogan v. Garner*, 498 U.S. 279, 286 (1991). Here, Congress's silence in the legislative history and text of § 284 suggests that a court's discretion to increase a damage award should not be constrained by a requirement of proof higher than a preponderance of the evidence.

As this Court has recognized, a "preponderance-of-the-evidence standard allows both parties to share the risk of error in roughly equal fashion," whereas "[a]ny other standard expresses a preference for one side's interests." *Herman & MacLean v. Huddleston*, 459 U.S. 375, 390 (1983) (internal quotations omitted). The issue of whether to award enhanced damages only arises if the fact-finder has already determined that the defendant has actually infringed a valid and enforceable patent. *See Seagate*, 497 F.3d at 1368. In such cases, the patent owner and the infringer should equally share the risk of an incorrect factual resolution in an enhanced damages determination. Factual issues in an enhanced damages determination should therefore be resolved under a preponderance of the evidence standard.

Finally, it is worth noting that this Court has held that a preponderance of the evidence standard sufficed for recovery under the antitrust laws. *See Herman & McLean*, 459 U.S. at 390. This is significant because a successful antitrust plaintiff automatically recovers treble damages. 15 U.S.C. § 15(a). This demonstrates that heightened burdens of proof are not required for treble damages awards, and there is no reason to impose such a heightened standard on § 284. This Court should grant certiorari in this case to clarify the appropriate standard for enhanced damages.

IV. THE FEDERAL CIRCUIT IS DIVIDED ON THE ISSUE OF WILLFULNESS

The need for this Court's intervention is further demonstrated by the Federal Circuit's division on willfulness issues. As discussed above, in *Seagate*, two Federal Circuit judges expressed their belief that there should be no willfulness requirement for the award of enhanced damages under § 284, emphasizing that "the language of the statute unambiguously omits any such requirement." *Seagate*, 497 F.3d at 1376-77 (Gajarsa, J., concurring).

Similarly, in the case underlying the present petition for certiorari, two other Federal Circuit judges stated that "it is time for the full court to reevaluate our standard for the imposition of enhanced damages in light of the Supreme Court's recent decisions." *Halo Elecs.*, 769 F.3d at 1384

(O'Malley, J., concurring). Noting that the current test for willfulness is analogous to the test for attorneys' fees struck down by this Court in *Octane Fitness*, the judges emphasized the need for reconsideration of not only the willfulness standard, but also of the requirement to establish willfulness by clear and convincing evidence. *Id.* at 1348-85.

At least three of the currently sitting Federal Circuit judges have raised concerns over the unduly rigid test used to determine whether to award enhanced damages under § 284. It is clear that there is significant division among the Federal Circuit regarding the appropriate standard for § 284 determinations. This Court should thus grant certiorari in this case in order to resolve this division.

CONCLUSION

For the reasons set forth above, the Court should grant Petitioner's Petition for a Writ of Certiorari.

Respectfully submitted,

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